

**OCCIDENTAL COUNTY  
SANITATION DISTRICT  
(A Component Unit of the  
County of Sonoma, California)**

Independent Auditor's Reports, Management's  
Discussion and Analysis and Basic  
Financial Statements

For the Year Ended June 30, 2008

**OCCIDENTAL COUNTY SANITATION DISTRICT  
FOR THE YEAR ENDED JUNE 30, 2008**

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Occidental County  
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Santa Rosa, California

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of Occidental County Sanitation District (District), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2008, and the changes in its financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated October 28, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Maclean Gini & O'Connell LLP*

Certified Public Accountants

Sacramento, California

October 28, 2008

## **Management's Discussion and Analysis**

**OCCIDENTAL COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

As management of the Occidental County Sanitation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the District's financial statements (pages 10 – 12) and the accompanying notes to the financial statements (pages 13 – 22).

**Reporting Entity**

The Occidental County Sanitation District is managed by the Sonoma County Water Agency (Water Agency), which provides administration, engineering, operational and maintenance services. The District is governed by a Board of Directors, which is the County of Sonoma Board of Supervisors. The District is considered an integral part of the County of Sonoma's reporting entity, resulting in the District's financial statements being included in the County's annual financial statements.

Please refer to the reporting entity definition within the notes to the basic financial statements for additional detail.

**Financial Highlights**

*Net Assets*

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,962,247 (*net assets*). Of this amount, \$1,977,147 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.

*Revenues*

The District recognized total revenues of \$1,051,569 during fiscal year 2007/08. Of this amount, \$350,097 consists of flat charges and charges for services (operating revenues), and \$701,472 of nonoperating revenues consisting of investment earnings, intergovernmental revenue and property taxes.

The District also recognized \$2,690,442 in capital contributions received from other governments. \$1,819,777 was recognized in relation to the grant received from the State Water Resources Control Board for the collection system replacement project and \$857,957 was recognized from contributions received from the Water Agency for various capital projects. An additional \$12,708 was received for disaster reimbursements.

*Expenses*

The District incurred expenses totaling \$929,718 for the year ended June 30, 2008. This amount represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses.

*Increase in Net Assets*

The District recorded an operating loss of (\$579,621) for fiscal year 2007/08.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's financial statements are comprised of three components: (1) management's discussion and analysis, (2) financial statements, and (3) notes to the basic financial statements.

*Management's Discussion and Analysis*

Management's discussion and analysis is intended to provide the narrative overview that users need to interpret the financial statements. Management's discussion and analysis also provides analysis of some key data presented in the financial statements.

*Financial Statements*

The District is engaged only in business-type activities. The District accounts for its financial activity utilizing fund accounting, specifically enterprise fund accounting, to ensure and demonstrate compliance with finance-related legal requirements. An enterprise fund is a proprietary fund type used to report activities for which a fee is charged to external customers for goods or services provided. The focus of an enterprise fund is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flow. The financial statements presented are the statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows.

*Notes to the Basic Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 – 22.

**Financial Analysis**

Net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$3,962,247 at the close of the most recent fiscal year compared to net assets of \$1,138,269 as of June 30, 2007.

A significant portion of the District's net assets (50.0% for fiscal year 2008 compared to 97.2% for 2007) reflects its investment in capital assets (e.g., land and buildings), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

*Condensed Statement of Net Assets*

	June 30, 2007	June 30, 2008	Percentage Change
Current and other assets	\$ 47,902	\$ 2,058,477	4197.3%
Capital assets	1,108,370	3,368,650	203.9%
<b>Total Assets</b>	<b>1,156,272</b>	<b>5,427,127</b>	<b>369.4%</b>
Current liabilities	17,003	1,464,880	8515.4%
Noncurrent liabilities	1,000	-	(100.0)%
<b>Total Liabilities</b>	<b>18,003</b>	<b>1,464,880</b>	<b>8036.9%</b>
Invested in capital assets net of related debt	1,106,370	1,984,423	79.4%
Restricted for debt service	1,655	677	(59.1)%
Unrestricted	30,244	1,977,147	6437.3%
<b>Total Net Assets</b>	<b>\$ 1,138,269</b>	<b>\$ 3,962,247</b>	<b>248.1 %</b>

A portion of the District's net assets \$677 and \$1,655 for FY 2007/08 and FY 2006/07, respectively, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$1,977,147 for FY 2007/08 and \$30,244 for FY 2006/07 may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all categories of net assets.

*Condensed Statement of Changes in Net Assets*

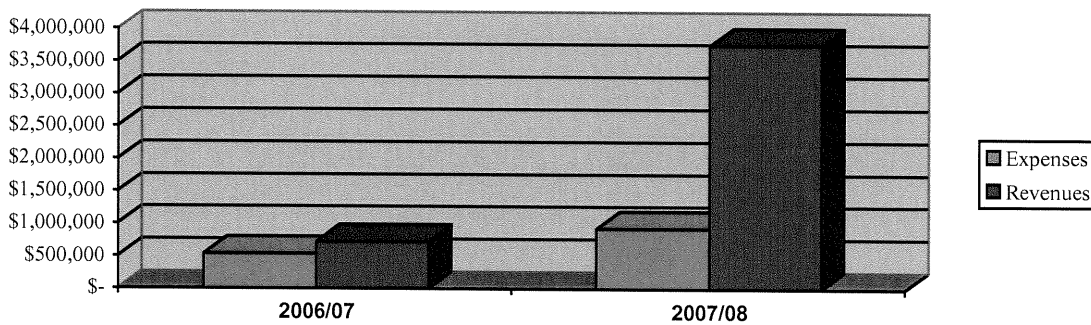
	June 30, 2007	June 30, 2008	Percentage Change
Revenues:			
Operating revenues	\$ 313,173	\$ 350,097	11.8%
Nonoperating revenues	373,491	701,472	87.8%
Total revenues	686,664	1,051,569	53.1%
Expenses			
Services and supplies	481,535	878,382	82.4%
Fiscal agent fees and legal services	10,060	6,135	(39.0)%
Depreciation and amortization	45,797	45,201	(1.3)%
Total expenses	537,392	929,718	73.0%
Income before contributions	149,272	121,851	(18.4)%
Capital contributions			
Capital contributed from other governments	-	2,690,442	-
Capital contributed from developers	-	9,685	-
Connection fees	34,000	2,000	(94.1)%
Increase in net assets	183,272	2,823,978	1440.9%
Net assets - beginning of year	954,997	1,138,269	19.2%
Net assets - end of year	\$ 1,138,269	\$ 3,962,247	248.1%



**OCCIDENTAL COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

The District's net assets increased by \$2,823,978 during FY 2007/08 compared to an increase of \$183,272 during FY 2006/07. The FY 2007/08 increase is due primarily to intergovernmental revenues of \$691,000 and capital contributions totaling \$2,702,127. Intergovernmental revenues represent contributions received from the Water Agency to fund operating costs and capital contributions include grant financing from the State in the amount of \$1,819,777, funding received from the Water Agency totaling \$857,957 for various capital projects, and Federal and State disaster reimbursements totaling \$12,708. Additional contributions were recognized from developers totaling \$11,685.

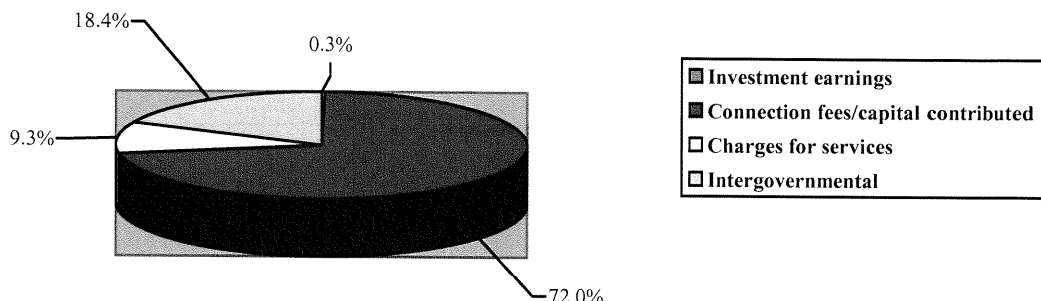
*Expenses and Revenues (including capital contributions)*



Total expenses for the District increased by \$392,326 to \$929,718 for the year ended June 30, 2008 due primarily to increased maintenance.

Total revenues, including capital contributions, of the District for fiscal year 2007/08 totaled \$3,753,696 representing an increase of \$3,033,032 from the preceding fiscal year revenues of \$720,664. The rate based charges for services, representing 9.3% of the District's 2007/08 total revenue, increased by \$36,924; connection fees and capital contributions, representing 72.0% of the District's total revenue, increased by \$2,668,127. Investment earnings increased from the preceding year by \$9,143. Intergovernmental revenues totaling \$691,000 were received from the Water Agency to fund ongoing operating costs. Capital contributions include a grant received from the State towards treatment plant improvements (\$1,819,777) and from the State and FEMA (\$12,708) for disaster related assistance. The combined effect of these occurrences is an overall increase in revenues of 420.9%.

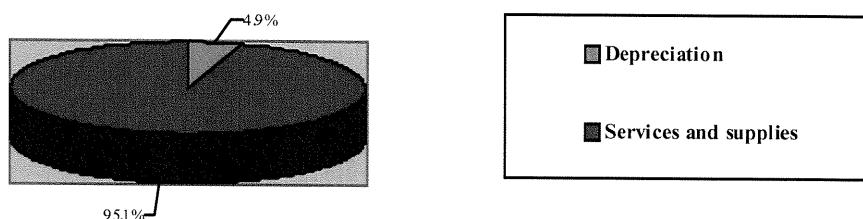
*Revenues by Source*



**OCCIDENTAL COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

As previously mentioned, revenues collected by the District for 2007/08 totaled \$3,753,696. Of this amount \$350,097 or 9.3%, was generated through charges for services. Charges for services represent sewer services charges to cover operations and maintenance costs, which are initially collected through the permitting process, then subsequently through the tax rolls. Connection fees, totaling \$2,000 in 2007/08, are also collected through the permitting process. Investment earnings totaling \$10,382 consist of earnings on pooled cash held with the Sonoma County Treasurer. Intergovernmental revenues, representing financing from the Water Agency, the State of California and FEMA totaled 67.2% of the District's revenues for the year ended June 30, 2008.

*Expenses by Function*



Total expenses for the District for fiscal year 2007/08 totaled \$929,718. Costs associated with the collection, treatment, and disposal of effluent represent 95.1% of the District's costs. Annual depreciation expense on capital assets represents \$45,201 (4.9%) of total expenses.

**Capital Asset and Debt Administration**

*Capital assets*

The District's investment in capital assets as of June 30, 2008, amounts to \$3,368,650 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements, and construction in progress. The increase in capital assets is a result of the District completing 2 capital projects during the fiscal year: a sewer replacement project totaling \$2,319,210, and an aeration pond project totaling \$207,175.

*Occidental County Sanitation District's Capital Assets*

	June 30, 2007	June 30, 2008	Percentage Change
Construction in progress	\$ 358,909	\$ 138,005	(61.5)%
Buildings and improvements	1,395,500	3,921,885	181.0%
Accumulated depreciation	(646,039)	(691,240)	7.0%
<b>Total</b>	<b>\$1,108,370</b>	<b>\$3,368,650</b>	<b>203.9%</b>

Additional information on the District's capital assets can be found in Note D on page 19 of the financial statement footnotes.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

*Long-term debt*

At the end of the current fiscal year, the District had a total of \$1,000 in outstanding debt consisting of general obligation bonds. This amount comprises debt backed by the full faith and credit of the District.

*Occidental Sanitation District's Outstanding Current and Long Term Debt*

	June 30, 2007	June 30, 2008	Percentage Change
General obligation bonds	\$2,000	\$1,000	(50.0) %

Additional information on the District's current and long-term debt can be found in Note E on pages 19 - 20 of this report.

**Next Year's Budget and Rates**

Budgeted gross expenses for the District for fiscal year 2008/09 have decreased by \$3,974,628 (86.1%) for a total of \$642,300. The major component of the decrease in budgeted expenses is related to capital projects that have been completed.

Following is a comparison of the final 2007/08 and proposed 2008/09 budgeted expenses for the District:

	2007/08	2008/09	Increase (Decrease)	Percentage Change
Occidental				
Operations	\$ 883,474	\$642,200	\$ (241,274)	(27.3)%
General obligation bonds	147	100	(47)	(32.0)%
Construction	3,733,307	-	(3,733,307)	(100.0)%
	\$4,616,928	\$642,300	\$ (3,974,628)	(86.1)%

Budgeted expenses for fiscal year 2007/08 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ending June 30, 2007. These variances are due to Board approved budgetary adjustments made subsequent to the publication of the 2007/08 audited financial statements.

The sewer service fees were increased for the 2008 - 2009 budget year. The rates were increased by 8.0%.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

Following are tables showing the sanitation services rates and equivalent single dwellings for the District.

*Rate per Equivalent Single-Family Dwelling*

	2007/08	2008/09	Percentage Change
	\$1,189	\$1,284	8.0%

*Number of Equivalent Single-Family Dwellings by District*

	2007/08	2008/09	Percentage Change
	282	282	0.0%

**Request for Additional Information:**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller Treasurer-Tax Collector's Office, ATTN. Fiscal Division, 585 Fiscal Drive, Room 101F, Santa Rosa, CA 95403.

## **Basic Financial Statements**

**OCCIDENTAL COUNTY SANITATION DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

**Assets**

Current assets:

Cash and investments	\$ 238,023
Restricted cash and investments - general obligation bond fund	677
Due from other governments	1,819,777
<b>Total current assets</b>	<b>2,058,477</b>

Noncurrent assets:

Capital assets:

Construction in progress	138,005
Buildings and improvements	3,921,885
Less accumulated depreciation	(691,240)
<b>Total capital assets (net of (accumulated depreciation))</b>	<b>3,368,650</b>
<b>Total noncurrent assets</b>	<b>3,368,650</b>
<b>Total assets</b>	<b>5,427,127</b>

**Liabilities**

Current liabilities payable from unrestricted assets:

Accounts payable and accrued expenses	80,653
Due to Sonoma County Water Agency	1,383,227

Current liabilities payable from restricted assets:

General obligation bonds payable	1,000
<b>Total current liabilities</b>	<b>1,464,880</b>

**Net Assets**

Invested in capital assets, net of related debt	1,984,423
Restricted for debt service	677
Unrestricted	1,977,147
<b>Total net assets</b>	<b>\$ 3,962,247</b>

The accompanying notes are an integral part of these financial statements.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008**

<b>Operating revenues</b>	
Flat charges	\$ 324,989
Charges for services	25,108
<b>Total operating revenues</b>	<b>350,097</b>
<b>Operating expenses</b>	
Services and supplies	878,382
Fiscal agent fees and legal services	6,135
Depreciation and amortization	45,201
<b>Total operating expenses</b>	<b>929,718</b>
<b>Operating loss</b>	<b>(579,621)</b>
<b>Nonoperating revenues</b>	
Investment earnings	10,382
Intergovernmental	691,000
Property taxes	90
<b>Total nonoperating revenues</b>	<b>701,472</b>
<b>Income before capital contributions</b>	<b>121,851</b>
<b>Capital contributions:</b>	
Capital contributed from other governments	2,690,442
Capital contributed from developers	9,685
Connection fees	2,000
<b>Increase in net assets</b>	<b>2,823,978</b>
<b>Net assets - beginning of year</b>	<b>1,138,269</b>
<b>Net assets - end of year</b>	<b>\$ 3,962,247</b>

The accompanying notes are an integral part of these financial statements.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 351,632
Payments to Sonoma County Water Agency	(737,503)
Payments to suppliers	(102,747)
<b>Net cash used by operating activities</b>	<b>(488,618)</b>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Taxes	90
Intergovernmental revenue	691,000
<b>Net cash provided by noncapital financing activities</b>	<b>691,090</b>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchase of capital assets	(2,283,892)
Principal payments - bonds	(1,000)
Interest paid on capital debt	(71)
Short-term loan received from Sonoma County Water Agency	1,383,227
Capital contributed from other governments	870,665
Capital contributed from developers	9,685
Connection fees	2,000
<b>Net cash used by capital and related financing activities</b>	<b>(19,386)</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received on pooled cash and investments	10,382
<b>Net increase in cash and cash equivalents</b>	<b>193,468</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>45,232</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 238,700</b>

**Reconciliation to the statement of net assets:**

Cash and investments	\$ 238,023
Restricted cash and investments - general obligation bond fund	677
<b>Cash and cash equivalents</b>	<b>\$ 238,700</b>

**RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:**

Operating loss	\$ (579,621)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation and amortization	45,201
Change in assets and liabilities:	
Decrease in accounts receivable	1,531
Decrease in prepaid expenses	1,140
Increase in accounts payable and accrued expenses	43,131
<b>Net cash used by operating activities</b>	<b>\$ (488,618)</b>

The accompanying notes are an integral part of these financial statements.



**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note A. Defining the Financial Reporting Entity**

The Occidental County Sanitation District (the District) is managed by the Sonoma County Water Agency (the Water Agency), which provides engineering, administration, operational, and maintenance services. The District is responsible for maintaining and operating the local sanitation collection systems, pump stations, and treatment plants. The District has an ordinance defining policies, including user fees.

*Component Unit Reporting*

The District is governed by a Board of Directors (the Board) which is the County of Sonoma (the County) Board of Supervisors. The exercise of this oversight responsibility causes the District to be an integral part of the County's reporting entity. Therefore, the District's financial statements have also been included in the County's annual financial statements.

There are no other organizations or agencies whose basic financial statements should be combined and presented with the District's basic financial statements.

**Note B. Summary of Significant Accounting Policies**

The District conforms to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. A summary of significant accounting policies is included below:

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The District uses a proprietary (enterprise) fund to account for its activities. An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal external revenue sources meet any of the following criteria: (1) issued debt is backed solely by fees and charges, (2) the cost of providing services for any activity (including capital costs such as depreciation or debt service) must be legally recovered through fees or charges, or (3) if the government's policy is to establish activity fees or charges designed to recover the cost of providing services.

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes and flat charges (sewer service fees) are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note B. Summary of Significant Accounting Policies (Continued)**

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)*

The District has elected under Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncement of the Financial Accounting Standards Board or any Accounting Principles Board Opinions or Accounting Research Bulletins issued on or before November 20, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are flat charges and charges for services. Operating expenses for the District include expenses relating to the collection, treatment, disposal, and reclamation of effluent as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

*Cash and Investments*

The District's cash and investments are pooled with the Treasurer of Sonoma County. The Treasurer also acts as a disbursing agent for the District. The fair value of the investments in the pool is determined quarterly. Realized gains or losses and interest earned on pooled investments are allocated quarterly to the District based on its respective average daily balance for that quarter in the County Treasury Investment Pool (the Treasury Pool), an external investment pool.

The District applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the statement of net assets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the District has stated its investment in the Treasury Pool at fair value.

The District applies the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* – an amendment to GASB Statement No. 3, which requires governmental entities to provide proper disclosures on common deposit and investment risk related to credit risk, interest rate risk and custodial credit risk.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note B. Summary of Significant Accounting Policies (Continued)**

*Cash and Investments (Continued)*

For purposes of the statement of cash flows, the District considers all pooled cash and investments as cash and cash equivalents because the Treasury Pool is used as a demand deposit account. Restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

*Restricted Assets*

Restricted assets represent cash and investments maintained in accordance with bond resolutions or by agreement, for the purpose of funding certain debt service payments.

*Capital Assets*

Capital assets are stated at cost or estimated historical cost. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided, excluding land, using the straight-line method over estimated lives ranging from 3 to 50 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Buildings and improvements are generally estimated to have useful lives ranging from 30 to 50 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

*Due to Sonoma County Water Agency*

The Water Agency provided a short-term loan to the District to fund capital expenses incurred associated with the treatment plant upgrade project.

*Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted or through external restrictions imposed by creditors, grantors or laws or regulation of other governments. Unrestricted net assets represent amounts that are not restricted for any project or other purposes and can be used for ongoing operations and fund current obligations.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note B. Summary of Significant Accounting Policies (Continued)**

*Property Tax Revenue*

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the District.

The County has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the District each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to the County.

Property taxes are recognized as revenue when they are levied. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County's financial statements.

*Intergovernmental Transactions*

Intergovernmental transactions made during the year are primarily charges for current services rendered or facilities provided. These transactions are recorded as revenue and expenses by the District. The District also receives contributions from the Water Agency to fund operating and capital expenses.

*Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note C. Cash and Investments**

The District follows the practice of pooling cash and investments with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and lease agreements. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Interest income earned on pooled cash and investments is allocated quarterly based on the average daily balance of the District during the quarter.

*Investment Guidelines*

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds and notes issued by local agencies
- Registered state warrants and municipal notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Reverse repurchase agreements
- Money market mutual funds
- Collateralized mortgage obligations
- Collateralized time deposits
- Joint powers agreement

A copy of the County Investment Policy is available upon request from the County Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

As of June 30, 2008, the District's cash and investments consisted of \$238,700 in the Treasury Pool managed by the County Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 394 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2008 are disclosed in the County's 2007-08 Comprehensive Annual Financial Report.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note C. Cash and Investments (Continued)**

*Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. One of the ways that the County Treasurer manages the District's exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments.

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk. As of June 30, 2008, all of the District's investments were in the County Treasury Pool and, are therefore, not exposed to custodial credit risk.

*Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. The credit rating and other information regarding the Treasury Pool for the year ended June 30, 2008 are disclosed in the County's 2007-08 Comprehensive Annual Financial Report.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note D. Capital Assets**

Capital asset activity for the year ended June 30, 2008 was as follows:

	July 1, 2007	Additions	Reductions	June 30, 2008
Capital assets, not being depreciated:				
Construction in progress	\$ 358,909	\$ 2,305,481	\$ (2,526,385)	\$ 138,005
Capital assets, being depreciated:				
Buildings and improvements	1,395,500	2,526,385	-	3,921,885
Less accumulated depreciation for:				
Buildings and improvements	(646,039)	(45,201)	-	(691,240)
Total capital assets, being depreciated, net	749,461	(45,201)	2,526,385	3,230,645
Total capital assets, net	\$ 1,108,370	\$ 2,260,280	\$ -	\$ 3,368,650

Depreciation expense was \$45,201 for the year ended June 30, 2008.

**Note E. Long-Term Obligations**

*General Obligation Bonds*

The District issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued was \$32,000. No new general obligation bonds were issued during the current fiscal year.

General obligation bonds are direct obligations and pledged by the full faith and credit of the District. General obligation bonds outstanding as of June 30, 2008 are \$1,000 with an interest rate of 5%.

Long-term obligation activity for the year ended June 30, 2008 was as follows:

	July 1, 2007	Additions	Reductions	June 30, 2008	Due Within One Year
General obligation bonds	\$ 2,000	\$ -	\$ (1,000)	\$ 1,000	\$ 1,000

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note E. Long-Term Obligations (Continued)**

*General Obligation Bonds (Continued)*

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending June 30,	Principal	Interest
2009	\$ 1,000	\$ 47

**Note F. Related Party Transactions**

The District is a special district under the Board of Supervisors, and as such, has the same board members as the County. Both the District and the Water Agency are component units of the County, and therefore, are considered related parties.

The District is managed by the Water Agency, which provides administration, engineering, operational, and maintenance services. The District does not incur any payroll expenses. The Water Agency allocates overhead costs to the District via the use of an overhead rate charged on labor applicable to the District. The overhead rate is reviewed periodically by management to determine its effectiveness. The District paid \$536,806 to the Water Agency for administrative support during the year ended June 30, 2008.

During the year ended June 30, 2008, the District received funding from the Water Agency to allow the District to meet operating and capital expenses. The total funding received by the District amounted to \$2,932,184 for the year ended June 30, 2008.

**Note G. Due to Sonoma County Water Agency**

During fiscal year 2007-08 the District received bridge funding from the Water Agency to fund the treatment plant upgrade project. The District is to return the funds to the Water Agency upon receipt of anticipated grant funding from the State Water Resources Control Board (SWRCB). As of June 30, 2008, the District has not received the funds from SWRCB. However, it is anticipated that SWRCB funds will be received during FY 2008/09 at which time the Water Agency funds will be returned.

**Note H. Contingencies**

*Risk Management*

The District is covered by the County's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The District is covered under this program for general liability, auto liability, public employees' performance/dishonesty and property insurance.



**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note H. Contingencies (Continued)**

The County maintains a self-insured retention of \$1,000,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority (CSAC-EIA) and Excess Liability Program. Limits of this coverage are \$15,000,000.

The County also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of \$10,000,000 and a \$25,000 deductible.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA property insurance program. Limits of coverage are \$575,000,000 per occurrence including flood and \$60,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

The District pays its pro-rata share of annual premiums for insurance coverage through the Water Agency's allocation of overhead costs (see Note F). Settled claims have not exceeded this coverage for any of the past four fiscal years.

*Pending Litigation, Claims, and Assessments*

An enforcement order issued by the North Coast Regional Quality Control Board (NC Regional Board) against the District and the Water Agency remains outstanding pending completion of capital improvements for the District's facility. The enforcement order requires the District to construct a compliance project to address historical discharge permit violations. The compliance project has changed several times since the enforcement order was first issued. The District's current project proposal with the NC Regional Board is awaiting approval prior to moving forward with the project. The ultimate cost of the project to the District is currently unknown, as the District is seeking grants and loans from outside funding agencies.

*Other Regulatory Matters*

The District is subject to Section VII of the Endangered Species Act. Section VII requires that all affected agencies, including the District, consult with fish and wildlife officials before performing any work which might disrupt or harm any endangered or threatened species or their habitat. This Act increases the possibility of threatened litigation from various environmental groups and individuals. The District is also subject to Section X of the Endangered Species Act which deals with habitat conservation planning.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note I. Recent Governmental Accounting Standards**

The Governmental Accounting Standards Board (GASB) has released the following new standard which may have an impact on to the District:

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued in November 2006. This Statement establishes accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Statement establishes once any of five specified obligating events occurs, that a government is required to estimate the components of the expected pollution remediation outlays and determine whether the outlays for those components should be recorded as a liability or, if appropriate, capitalized when goods and services are acquired. GASB Statement No. 49 is effective for financial statements for years beginning after December 15, 2007.

The impact on the financial statements of the District of this pronouncement which has not yet been adopted, is unknown at this time.

## **Other Report**



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Board of Directors  
Occidental County Sanitation District  
Santa Rosa, California

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of Occidental County Sanitation District (District), as of and for the year ended June 30, 2008, and have issued our report thereon dated October 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and District management and is not intended to be and should not be used by anyone other than these specified parties.

*Maclean Hini & O'Connell LLP*

Certified Public Accountants

Sacramento, California

October 28, 2008